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SUBJECT: C O R R E C T E D C O P Y Presidential Advisors Discuss

Calderon's Social

Development Efforts, including Education

REF: (A) Mexico 944

(B) Mexico 13

Summary

¶11. (SBU) On April 6, President Calderon once again publicly explained how fighting poverty is the top economic goal of his Administration. In Ref A, Post explains President Calderon's overall strategy for alleviating poverty, which includes macroeconomic stability, increased trade and foreign investment, improved competitiveness and infrastructure, structural reform and social development programs. On April 4, Econoffs met with members of Calderon's "social cabinet" to discuss social development efforts. Dr. Liliana Meza, Technical Secretary for the Social Cabinet, described the effort as "investing in people" in order to make the poor economically productive members of the labor force, while providing all Mexicans a minimum floor of assured welfare. Since this effort requires education reform, Meza said the President and had met with the leader of the politically powerful teachers' union (SNTE) Elba Esther Gordillo, and Education Minister Josefina Vasquez Mota to discuss an agreement on education reforms. A key goal of social development, Meza said, was to eliminate "food-based poverty" by 2030. (Comment: Currently 14.4 million Mexicans, 13.8% of the population, do not earn enough to meet basic nutritional needs. End Comment) Meza also described how reforestation programs promote rural development, and made a pitch for the United States to join European countries in seeking carbon emission offsets by supporting reforestation in Mexico. End Summary

Calderon Again Pledges to Alleviate Poverty

¶2. (U) In an April 6 speech in San Juan Chamula, Chiapas, one of Mexico's most representative indigenous communities, President Calderon again discussed the priority he places on alleviating poverty. He said "social development" was the centerpiece of his Administration, with the ultimate goal being that all Mexicans, regardless of their ethnic origin or native language, should be assured that there will not be a lack of food on their table, that their children will be able to attend school, and they will have access to medicine, hospitals and doctors. Calderon stressed his commitment of providing Mexico's most vulnerable with education, housing, health, water, infrastructure, job opportunities, and a better income. His speech also stressed the importance of protecting the environment and the country's forests and jungles.

Calderon's Social Cabinet Lays out the Plan

¶3. (U) On April 4, Econoffs met with Calderon's social cabinet, led by Dr. Liliana Meza, the Social Cabinet Technical Secretary. Also attending were Dolores Nieto, Director for Agricultural and Livestock Policy; Luis Villanueva, Coordinator for Social Policy; and Enrique Mezo, Head of the Department for Agricultural Policy. Meza explained that social development has been a priority for Calderon since his Presidential campaign, and now "social policy" and "equal opportunity" were main pillars of the National Development Plan for 2007-2012 (Ref A). Overall, she said the goal was to invest in people so that all Mexicans have equal opportunity

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to obtain adequate nutrition, housing, health care and economic security for their families. A key specific goal was to eliminate "food-based poverty" by 2030.

Escaping Poverty Starts with Health Care

¶4. (U) Part of the effort to achieve equality of opportunity, Meza noted, was the pledge Calderon made in his inaugural address that every child born during his Administration would have health insurance. To do this, Calderon expanded former President Fox's "Popular Health Insurance" program (Seguro Popular) (Ref A) to create the "Health Insurance for a New Generation." She said the ultimate goal was for all Mexicans to have health insurance by the end of the Calderon Administration in 2012.

¶5. (U) Responding to criticism from the Central Bank Governor (Ref A), and some industrial sectors that government health programs motivate people to remain in the informal sector of the economy where they do not pay social security or other taxes, Dr. Meza's colleagues said it was easier for poor people to overcome poverty if they had health coverage. Meza explained that these health programs are critical to supporting other social development efforts, such as the "Oportunidades" program, which directly tackle poverty (Ref A). She said the Administration was aware that even for families receiving support from existing social development programs, a catastrophic illness can wipe out a family's savings, forcing them to pull children out of school, and pushing the family into poverty. Health insurance programs also improve educational opportunities for children, she said. If families have health coverage, they do not need to spend the little money they earn on health, but in sending their children to school.

Goal of Universal Pensions Requires Energy and Tax Reform

¶6. (SBU) Meza said Calderon's pledge to provide "equal opportunity" for all Mexicans extended to providing them financial security. This in turn, she explained posed the "greatest challenge," providing all

Mexicans retirement pensions regardless of where they worked. She noted that reform of state oil monopoly PEMEX and further fiscal reform would be needed to generate sufficient revenue, and that so far there is no political consensus on how to handle even indirect taxes, such as the value-added tax. She explained that the Administration was making some progress on financial security for all by expanding government health insurance for the elderly.

Day Care Needed to Escape Poverty

¶17. (U) Another measure cited by Meza to alleviate poverty was the establishment of over 6000 day care centers. Previously, she explained government-provided day care was only available to workers in privileged sectors of society, such as workers for the state oil monopoly PEMEX, and workers of the social security institute for government workers (ISSSTE). The Calderon Administration realized that poverty levels decline when both spouses work, and therefore has expanded government day cares to help women enter the labor market. Overall, she said, from 1994 through 2008, women's participation in the labor market grew from 30 to 50%.

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Building Human Capacity the Critical Step

Education Reform on the Way?

¶18. (U) Dr. Meza explained that the ultimate goal is to develop the capacity of Mexico's poorest people so they can move beyond government social development programs into decently paying jobs. To do that, she said the Administration is trying to tie social and education programs in rural and urban areas to the needs of the labor market. She said that reforming basic education alone was not enough to increase the capacity of Mexico's labor force. Instead, the government was working to improve technical training, use of the internet and reform middle-school and high school/university education to link it to the needs of the labor market. With the support of business chambers and universities, the government is working to link education programs to the country's the most-demanded jobs. The government has also begun to foster development of those technical careers that are currently in more demand and could help young Mexicans to insert more easily to the global labor market. Meza said current government efforts include facilitating the issuance of education scholarships, in particular for high school and university education.

¶19. (SBU) Meza claimed the politically powerful teacher's union, The National Union of Education Workers (SNTE), was "well disposed to cooperate" in this effort. She said on April 2, Calderon and his Education Minister Vazquez Mota met with SNTE President Gordillo to discuss education reforms. Meza claimed Gordillo had had no problems with the measures being discussed. Meza opined that she hoped Mexico had "turned the corner on this binding constraint" of the teacher's union blocking education reform. She noted that if Mexico failed to prepare its people to be part of the world economy, Mexico's polarization would deepen, bringing economic and social problems. (Comment: The communique issued by Calderon's office about the meeting seemed carefully worded. It said Calderon had called Gordillo and Vasquez Mota to meet him in order to "dialog and construct an agreement to promote education," and to design a "shared strategy between the government, society and teachers to allow a significant increase in the quality of education." The communique said this agreement would be the basis for a fundamental transformation of the education sector, and that Calderon told Gordillo and Vasquez Mota he would be waiting for them to present specific initiatives to improve the quality of education. While it was a significant accomplishment for Calderon to get Gordillo to the same table with him and Vasquez Mota to discuss education reform, Post has not yet seen indications that Gordillo is willing to support education reform. End Comment)

¶10. (U) Meza said another means to bring the poor into the productive economy was through expanding their access to credit and other financial services. Since the government lacked resources to directly develop savings and lending for the poor and micro-businesses, Meza said it used programs like the "Compartamos" (Let's Share) to facilitate development of non-government

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organizations and the private credit market (Ref A). (Comment: Compartamos was a non-profit organization that became a for-profit bank focused on micro-lending. In order to ensure a sustainable means for expanding financial services for the poor, the Mexican Secretariat of Economy has used loan capital and capacity-building

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to support non-government, private and cooperative groups that provide financial services to micro- and small-scale businesses and rural households. End Comment) Meza said such programs help small- and micro-businesses and rural households invest and grow economically by helping them establish a credit history. She explained that "Solidarity Guarantees," in which members of a group cross-guarantee each others' loans in place of traditional collateral, ensure the loans are repaid. (Comment: Many of Mexico's most successful micro-finance institutions, such as Compartamos, Fincomun, Finca and AlSol, are also partners in USAID's ongoing micro-finance project, in which USAID partners with the public and private sector to expand access to financial services for the more than one million Mexicans who had previously been excluded from the traditional financial sector. End Comment)

¶11. (U) Noting the importance of promoting savings for the poor, Meza said the main reason Mexicans immigrate is lack of credit and social services. She said people migrated to obtain the capital needed to provide financial security for their families.

Rural Development Through Re-forestation

¶12. (U) Meza noted that each Cabinet Secretary was given a goal in promoting rural development, and each was tasked to identify their specialty regarding rural development, and to improve the efficiency and impact of their programs. She said government programs to stimulate development in rural and impoverished areas included Procampo (the rural development program described in Ref A) and "Young Entrepreneurs," and reforestation.

¶13. (U) Meza said "ProArbol" was among the most important environmental programs that Calderon has implemented. ProArbol seeks to reforest vast areas, and maintain existing forest cover. Through this program, she said the government pays peasants the cost of its land and an additional amount to motivate them to re-plant trees. (Comment: ProArbol supports peasants to maintain forest coverage by paying for environmental services, such as water, carbon and biodiversity; promoting sustainable productive forest management, soil restoration, fire prevention; as well as motivating local communities to replant trees. In the first year of the ProArbol program, Calderon promised to plant 250 million trees, fully one-quarter of the worldwide total the United Nations called for in ¶2007. The government claims to have reached this goal. End Comment) Meza also discussed the program, Cuenca Forestal de Golfo," under which Mexico contributes to reducing carbon emissions thus becoming a "lung for North America." She said European countries were already exchanging carbon credits by funding restoration of humid and temperate forests in Mexico. She opined that it would be natural for the United States to use Mexico to offset its carbon emissions, thus supporting Calderon's efforts to protect the environment of North America as a region.

Support to Marginalized Areas Meant to Compete with

¶14. (U) Meza provided some insight into Calderon's recently announced support programs for marginalized areas of Mexico, described in Ref A. Meza said Mexican firms were about to leave for Central America seeking lower labor costs. The Administration responded by asking these firms to work with the government to develop incentives to invest in marginalized areas of Mexico that had ample supplies of the low skilled labor offered in Central America. The measures were meant to help head off Mexico's slipping competitiveness to Central America.

Minimum Wage Not A Tool for Social Development

¶15. (SBU) Econoff asked Meza about the debate each December/January over how much to increase Mexico's minimum wage. While the government and many business representatives favor keeping the minimum wage low in order to control inflation, unions call for increasing the wage (Ref B) claiming that the low minimum wage perpetuates poverty and immigration out of Mexico. Meza acknowledged that 18-20 percent of workers in Mexico earn less than two minimum salaries (roughly USD 10 a day), but said the minimum wage was a "reference price," rather than a real price for labor. If wage levels were too low, she explained, market forces push wage levels upward regardless of the minimum wage. As for those who saw increasing the minimum wage as a panacea to poverty, Meza said it would be "foolishness" to increase the minimum wage enough for a family of four or five to join the middle class. She explained that the minimum wage was established to stabilize the economy in the 1980's by resolving the crisis caused by rampant inflation and soaring foreign debt. Meza said that wages were low in Mexico because of market forces responding to the excess supply of unqualified labor. It was therefore important for the government to raise the productivity of the labor force. Raising labor costs without increased productivity would only increase inflationary pressures, and continued macroeconomic stability was essential to reducing poverty in Mexico.

Importance of Macroeconomic Stability

¶16. (SBU) In echoing public statements by President Calderon and Finance Minister Carstens that macroeconomic stability is the pillar for development and poverty alleviation (Ref A), Meza noted that Mexico is barely recovering from the financial crises of 1995. The government must remain cautious in keeping government spending in line with revenues because of the devastating cost a financial crisis has in pushing more people into poverty. Thus, although the government recognizes the utility of further expanding the successful poverty alleviation program Oportunidades into urban areas, current revenues do not allow such expansion. Instead, Calderon is trying to coordinate and realign efforts to spend public resources more efficiently and improve the impact of the existing social programs while maintaining economic stability despite the threat of a possible U.S. recession.

Importance of Public Security

¶17. (U) In a television interview following the President's April 6

speech, Secretary of Social Development, Ernesto Cordero explained that Calderon's announcement that social development was the center piece of his Administration did not mean he would disregard the fight against drug trafficking. Cordero said the Administration understands that Mexico requires integrated and coordinated actions

for law enforcement and social development. Calderon's social development team highlighted this connection during the April 4 meeting with Econoffs. Villanueva noted that at the start of his Administration Calderon launched "Limpiemos Mexico" ("Let's Clean Up Mexico"), to combine efforts to combat insecurity and foster social development. The plan consists of rescuing public spaces from criminals, and making them secure. Such efforts included sending the military into areas where local law enforcement has been unable to combat drug traffickers, combined crime prevention and social development efforts focused on cities with high crime rates.

Comment

¶18. (SBU) While there are critics who accuse Calderon of using the social policy as a government's flag for electoral purposes, in particular for the upcoming 2009 mid-term elections, there is no doubt that social programs, such as Oportunidades, have helped reduce poverty. However, it is also true that these sometimes scattered efforts must be better coordinated to improve their impact and effectiveness, not only to alleviate poverty and provide more opportunities to the population, but also to reduce the incentive to migrate to the U.S. by giving Mexicans the access to education they need to find a decent job.

¶19. (SBU) As noted in Ref A, bringing the poor into the productive labor force also requires structural economic reforms to obtain the resources the government seeks to "invest in people," to create an education system that produces productive workers, and to transform Mexico into a competitive economy able to provide sufficient jobs for its people. End Comment.

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